

Financial and Capital Policy



Koshiro Kudo, CFO

Director, Senior Executive Officer

Achieving the Current Medium-Term Management Initiative

In 2022, we will celebrate the 100th anniversary of Asahi Kasei's founding. Looking back on our history, we have constantly grown by always providing value through our businesses to meet ever-changing social needs based on the strengths inherent in the "diversity" and "capability to change" of our human resources, technologies, and businesses. Under "Cs+ for Tomorrow 2021," our medium-term management initiative, we aim to achieve two mutually reinforcing aspects of sustainability: contributing to sustainable society and the sustainable growth of corporate value. In our efforts to contribute to sustainable society, we will provide greater value by concentrating management resources, including human resources and technologies, in fields where we can provide value to society. For the sustainable growth of corporate value, we will seek to continuously realize capital efficiency (ROE) exceeding the cost of shareholders' equity by accelerating

the transformation of our business portfolio and steadily advancing our financial and capital policy and other measures.

Enhancing Cash Generation, Reinforcing Financial Foundations

The Asahi Kasei Group achieves steady earnings by operating businesses in the three sectors of Material, Homes, and Health Care. In fiscal 2020, compared with the outlook at the time of formulating "Cs+ for Tomorrow 2021," earnings in Material were lackluster, though on a recovery trend as the year progressed, due to impacts of United States–China tensions and the COVID-19 pandemic, while operating income in Homes lagged one year behind, and performance in Health Care was strong. Meanwhile, we endeavored to maintain and fortify our financial foundations through measures such as greater financial discipline in light of changes in our business environment, carefully selecting capital expenditure and investment projects, and thoroughly

Primary Financial Metrics

| | FY2016 | FY2017 | FY2018 | FY2019 | FY2020 |
|---|---------|---------|---------|---------|---------|
| Net sales (¥ billion) | 1,883.0 | 2,042.2 | 2,170.4 | 2,151.6 | 2,106.1 |
| Operating income (¥ billion) | 159.2 | 198.5 | 209.6 | 177.3 | 171.8 |
| Operating margin | 8.5% | 9.7% | 9.7% | 8.2% | 8.2% |
| EBITDA ¹ (¥ billion) | 268.4 | 311.9 | 313.6 | 295.6 | 305.1 |
| Net income per share (EPS) | ¥82.34 | ¥121.93 | ¥105.66 | ¥74.85 | ¥57.49 |
| Net income per shareholders' equity (ROE) | 10.5% | 14.0% | 11.1% | 7.6% | 5.6% |
| Net income per net sales (ROS) | 6.1% | 8.3% | 6.8% | 4.8% | 3.8% |
| Total asset turnover ratio | 0.84 | 0.89 | 0.89 | 0.80 | 0.73 |
| Financial leverage | 2.0 | 1.9 | 1.8 | 2.0 | 2.0 |
| Net income per shareholders' equity and interest-bearing debt (ROIC) ² | 7.8% | 9.7% | 8.8% | 6.6% | 4.9% |
| D/E ratio | 0.35 | 0.23 | 0.31 | 0.52 | 0.45 |

¹ Operating income, depreciation, and amortization (tangible, intangible, and goodwill)

² (Operating income – income taxes) / average annual invested capital

implementing appropriate control of inventories and expenses. As a result, we were able to achieve performance that puts us on track to achieve operating cash flow in the range of ¥600 billion to ¥700 billion, the three-year target set when formulating the medium-term management initiative. We will continue striving to enhance our cash generation capabilities by maximizing returns on past capital expenditure and investments and by raising productivity, in addition to continuously improving profitability and capital efficiency through the transformation of our business portfolio.

We expect an increase in interest-bearing debt of ¥200 billion to ¥400 billion, within the range anticipated in “Cs+ for Tomorrow 2021.” Accordingly, we will continue to undertake financing while targeting a D/E ratio of around 0.5.

Capital Expenditure and Investments Tailored to Changes in the Business Environment

Amid an increasingly uncertain and obscure business environment, we intend to concentrate the allocation of resources to capital expenditure and investments that have greater potential for sustainable growth while remaining conscious of the cost of capital. As a result of the more careful selection of investments from the initial formulation of “Cs+ for Tomorrow 2021,” we plan to make decisions on capital expenditure and investments at the level of ¥700 billion to ¥800 billion over the three-year period. Going forward, we will proactively invest in M&A in the Health Care sector, in increasing the production capacity of businesses in priority fields for provision of value in the Material sector, and in areas related to digital transformation and sustainability.

Shareholder Returns

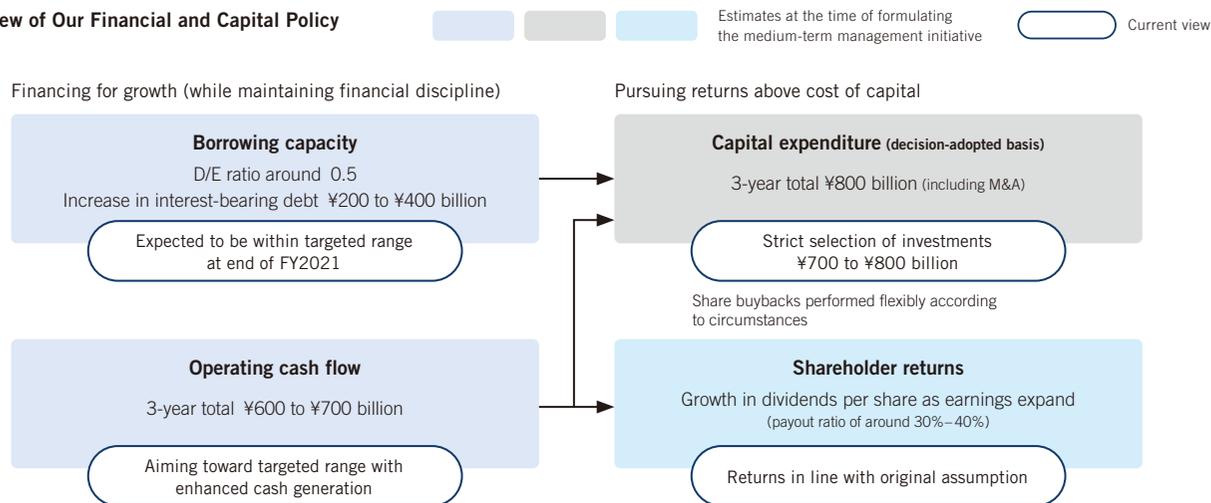
Our basic policy on shareholder returns is to aim for stable

dividends and continuous dividend increases from a medium- to long-term perspective through the sustained generation of cash flow while paying close attention to the balance between investments for growth and our financial position. Specifically, we aim to steadily raise dividends while maintaining a payout ratio of

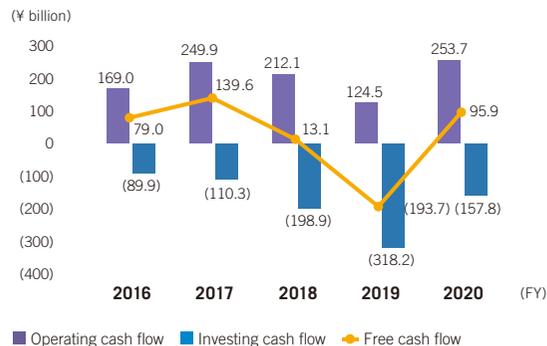
around 30% to 40% and considering the ratio of dividends to shareholders’ equity. We plan to maintain dividends per share at ¥34 for fiscal 2021* and expect the dividend payout ratio over the three years of “Cs+ for Tomorrow 2021” to be 40% or higher.

* Forecast in May 2021

Overview of Our Financial and Capital Policy



Cash flows



Dividends per share and dividend payout ratio

